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NATIONAL INTELLIGENCE DAILY CABLE

Saturday 12 August 1978

CG NIDC 78/188

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**NATIONAL SECURITY INFORMATION**  
Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Saturday, 12 August 1978.

[Redacted] The NID Cable is for the purpose of informing senior US officials.

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LEBANON: Military Situation Report

*The cease-fire in Beirut was threatened last night by a flareup in fighting between Christian militiamen and Syrian troops. There are significant differences within the leadership of the Christian Phalanges Party over the current efforts to negotiate an end to the crisis in the city.*

Relative calm prevailed during daylight yesterday, but fighting broke out last night. The Syrian command announced that an extremist militia group opened fire on Syrian troops, who retaliated with artillery fire. Beirut Radio reported that efforts were under way to restore the cease-fire.


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**PORTUGAL: Soares Won't Join Government**


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 Portuguese Socialist leader Soares announced yesterday that his party--Portugal's largest--would not participate in a government formed by independent technocrat Alfredo Nobre da Costa. Another prominent Socialist has informed the US Embassy, however, that the party will probably allow Nobre da Costa's government to take office and may even want it to continue in power until elections in 1980. Socialist refusal to associate itself with the government will seriously impair efforts to assemble a viable cabinet and would appear to condemn the government to a weak, transitional role.


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 Calling President Eanes' appointment of a non-Socialist "unconstitutional," Soares told reporters that "it does not make sense to us that the Socialists, elected by the people as the biggest party, should not continue to govern." He added that his support of Nobre da Costa's government would depend on its composition and policies.


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 With Socialist participation ruled out, Nobre da Costa faces the prospect of heading a government that lacks connections with the country's most important political networks. Only the Center Democrats offer whole-hearted support. The Social Democrats, though conservative, see no advantage in joining a weak administration, and the Communists are ideologically unacceptable.

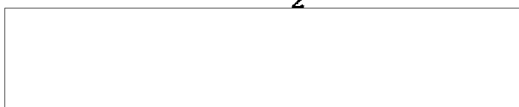
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 Soares may be trying to force Nobre da Costa into an eventual admission that he cannot form an effective government. In that event, Soares could hope that Eanes would nominate a Socialist who would have a much better chance.

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 There is a possibility that the Socialist action could throw the country into a grave dilemma. Already incensed by Soares' efforts to circumscribe his authority as President, Eanes could use Socialist recalcitrance as a pretext for declaring the present legislative arrangement untenable. An election would have to be held; it would be regulated by outdated laws that could make the results illegal. Eanes might then see no alternative to declaring a state of emergency and assuming government powers himself until the impasse was sorted out.

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[REDACTED]

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[REDACTED] Nobre da Costa, however, is not likely to give up. If he succeeds in putting together a cabinet, the Socialists are ready with a longer term game plan. Socialist International Secretary Rui Mateus claims that his party would extend only limited cooperation to such a government, but that it would be willing to let it stand until the regularly scheduled elections in 1980.

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[REDACTED] The Socialists would use this interregnum to prime their long-neglected grassroots supporters for elections. If held now, elections would find the party disorganized in comparison to its strongest opponent, the Social Democrats. A few months in opposition would give the Socialists a chance to recover from a significant decline in popularity and to compete more effectively with the Communists on their left.

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[REDACTED] Viewing the crisis in such narrowly partisan terms could well be destructive to the emerging government's efforts to mount an effective economic recovery policy. Any significant success is likely to be seen as a threat to the Socialists and to prompt active opposition that would almost certainly bring the government down.

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[REDACTED] Given the Socialists' cynical views, it is unlikely that a Nobre da Costa government could survive for more than a few months. It still seems doubtful, however, that the Socialists would prompt a crisis until legislative preparations for early elections are near completion. [REDACTED]

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EGYPT: Levels of Arab Aid

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[ ] Egypt is disappointed with the amount of aid promised it at a meeting on 27 July of a group of wealthy Arab donors. The aid falls far short of Egypt's expectations and of recent estimates of its needs by the International Monetary Fund and the World Bank. Unless larger amounts of new aid can be obtained before the end of the year, Egypt could find itself pushing against the short-term borrowing limits set by its recent agreement with the IMF.

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[ ] Egypt had been hoping for new commitments of \$600 million to \$1 billion in quickly disbursable grants or long-term loans, but the Gulf Organization for the Development of Egypt--a donor organization composed of Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar--granted only \$250 million in debt relief for 1978 and 1979 and promised substantial debt writeoffs in subsequent years.

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[ ] The Gulf donors contended that cash flow problems, declining petroleum revenues, and the falling value of the dollar limit their ability to provide more economic assistance. Although these are important problems, the conservative Arab states of the Persian Gulf may also be trying to retain their economic leverage in an attempt to ensure that President Sadat is responsive to their interests in peace negotiations with Israel.

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[ ] The donors are also still concerned about poor Egyptian financial management, although Cairo's recent agreement with the IMF to make further economic reforms temporarily removes this longstanding Arab excuse for delaying new aid commitments.

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[ ] During 1976 and 1977, the Gulf donors committed \$2 billion in loans and guarantees to Egypt. All but \$100 million of this money has been used to pay off foreign debt arrears, which reached \$1 billion early in 1977, and to help Cairo cover its remaining foreign financial gap in 1977 and the first half of 1978.

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[ ] The latest aid commitment falls short of recent IMF and World Bank estimates that Egypt needs \$600 million in 1978 and a like sum in 1979. Cairo will find it difficult to borrow



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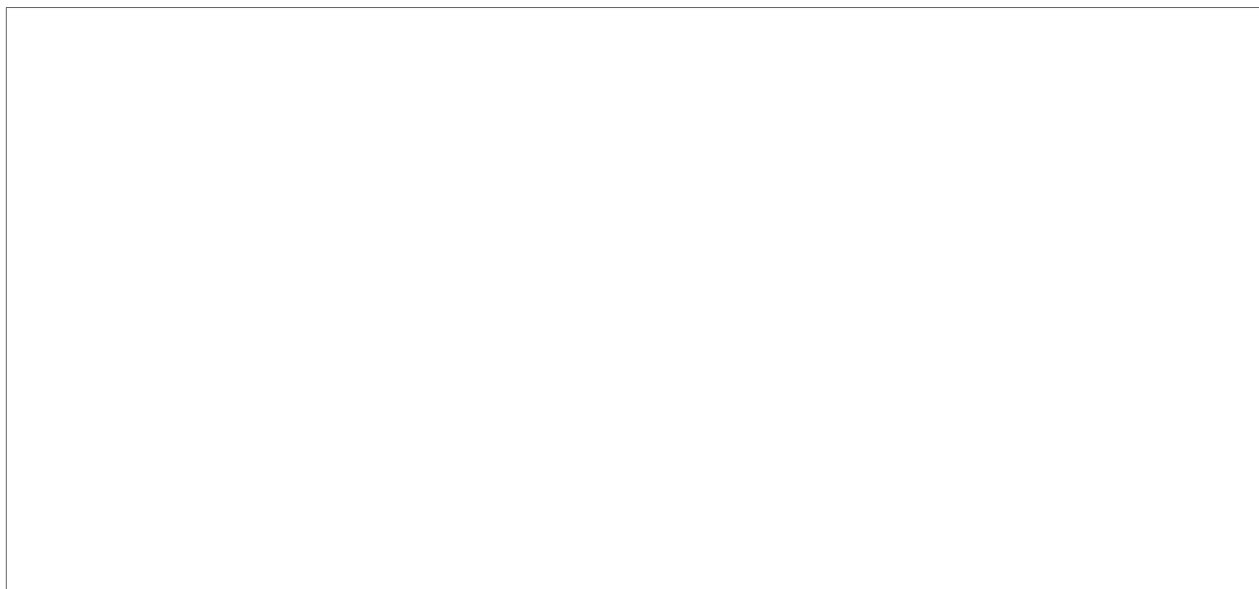
the remaining funds needed, even though the writeoff of its debts to the Gulf donors should improve its credit rating. Although the donors promised to help Egypt secure \$150 million in short-term commercial credits, sharp increases in Cairo's short-term borrowing are limited by the terms of the IMF agreement. Egypt, moreover, lacks the credit standing needed to raise large amounts through medium- and long-term commercial loans.

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#### BRIEFS

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#### Iran

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 The Iranian Government has declared martial law in the city of Isfahan, the first time that such a measure has been used for nearly 15 years. There have been extensive riots and demonstrations in Isfahan for the last week, some directed against Americans. The demonstrations stem from the commemoration of the death of a prominent clergyman and have apparently been encouraged by another clergyman who recently returned to Isfahan after being exiled to another city two months ago for participating in earlier demonstrations. He has once again been arrested.

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25X1 [ ] The declaration of martial law in the face of the  
highly publicized liberalization program indicates a high degree  
of concern on the government's part but also reemphasizes the  
25X1 Shah's point that violence for political ends will not be tol-  
erated. [ ]

#### Malta

25X1 [ ] //According to Maltese Attorney General Mizzi,  
Prime Minister Mintoff may be on the verge of carrying out his  
threat to turn to Libya for the bulk of his economic assistance,  
as a result of the West European failure to meet his demands  
for aid by 31 July.//

25X1 [ ] //In recent conversations with the US and French  
Ambassadors, Mizzi admitted that the decision is not firm, but  
he expressed confidence that Mintoff will move toward taking  
the "Libyan option." Mizzi restated some of the old Maltese  
demands, such as direct budgetary subsidies instead of project  
assistance or loans.//

25X1 [ ] //Both the US Embassy and a French diplomat who  
negotiated with Mintoff believe the negotiating process has  
not been derailed, although it may be delayed. Mintoff will  
probably make a more definitive statement on the matter after  
his return to Malta on 12 August.//

25X1 [ ] //If Mintoff is really thinking of a turn to Libya  
for most of his aid after the British withdraw, he may be doing  
so on nothing more than faith. Qadhafi is parsimonious with cash,  
and in fact is inclined to deemphasize cash aid in favor of  
technical assistance or equipment transfers. Although he has  
publicly promised aid to Malta, there is no evidence that he  
has agreed to give Mintoff the kind of help he has been demand-  
ing from the Europeans--\$200 million over a five-year period.

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#### Ghana

25X1 [ ] Politically aware Ghanaians are expressing their op-  
position to Head of State General Akuffo's plan to transfer  
power next year to a transitional, nonparty civilian government  
to rule for at least four years.

25X1 [ ] The coup last month raised expectations for far-reaching political changes, and many Ghanaians favor an early lifting of the ban on political parties and a swift return to a civilian party-based government.

25X1 [ ] Ghana's bar association this week came out against Akuffo's transitional government scheme, indicating that Akuffo's efforts to gain the support of professionals to work for political and economic reform are in jeopardy. This could generate new frictions among military leaders who want to return the army to the barracks as soon as possible. [ ]

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